

IOWA ALCOHOLIC BEVERAGES DIVISION



Governor Terry E. Branstad
Lt. Governor Kim Reynolds
Administrator Stephen Larson

An effective system for the State of Iowa

The Control State System is steeped in history and still very effective and relevant today. The Division strives to balance generating revenue for the State of Iowa with social responsibility and public health.

With the repeal of national prohibition in 1933, the regulation of alcoholic beverages reverted to the individual states. The failure of prohibition showed that the nation was too large and too diverse to accept a single standard of sobriety. Iowa chose to resume the legal sale of alcoholic beverages, but the pre-prohibition proliferation of saloons and abusive drinking were clearly unacceptable.

The **four core functions** of the Iowa Alcoholic Beverages Division:

regulation To regulate the alcohol industry within the state.	licensing To license distributors, retailers and wholesalers.
education To use education and outreach to enforce Iowa laws.	distribution To distribute spirits equitably at the wholesale level.

Citizens needed a new way to balance the right to consume alcohol with social responsibilities and costs in order to better serve the community interests. Iowa chose to be directly involved in the sale of spirits as “control jurisdictions.” This model allows for control of alcohol trafficking within Iowa while maximizing revenue generated for the State.

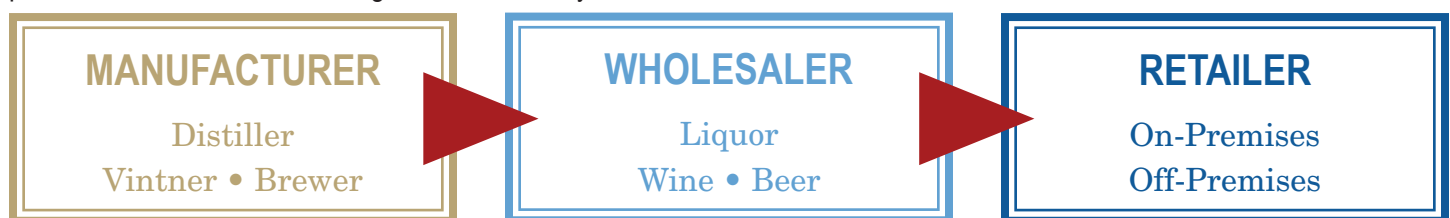
The Iowa General Assembly established the Iowa Liquor Control Commission in 1934 to regulate the sale of alcoholic beverages and opened five state-operated liquor stores. For over 50 years, the state was the sole wholesaler and retailer of spirits and wine.

More than 250 state-owned stores were in operation in 1986, when the state transitioned the retail sale of liquor and wholesaling of wine to licensed privately owned stores. Today, the State wholesales and distributes spirits only to privately owned retail stores through the state.

THE DIVISION'S MISSION

To serve Iowans through the responsible regulation and profitable distribution of alcohol while providing opportunities for industry development and promoting health through education.

Iowa's alcoholic beverages industry operates under a **three-tier system**: manufacturer to wholesaler to retailer. This system maximizes revenue for state and local programs while minimizing the cost of industry regulation. All liquor, wine and beer purchases must be made through the three-tier system.



IOWA ALCOHOLIC BEVERAGES COMMISSION

The Iowa Alcoholic Beverages Commission is comprised of five members appointed by the governor, subject to confirmation by the senate. The Commission acts as a policy-making body and serves in an advisory capacity to the Administrator.

MARY HUNTER

Chairperson Hunter was appointed in 2002. She is an Executive Director for the Juvenile Diabetes Research Foundation.

GREG NASHLEANAS

Vice-Chairperson Nashleanas was appointed in 2008. He is a General Manager at L & L Distributing in Sioux City.

JIM CLAYTON

Secretary Clayton has served on the ABC since 2005. He is the co-chairperson of The Stepping Up Coalition in Iowa City.

RICK HUNSAKER

Commissioner Hunsaker was appointed in 2006. He is the Executive Director of Region XII Council of Governments in Carroll.

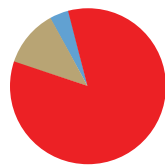
CLAIRE CELSI

Commissioner Celsi was appointed in 2010. She is the owner of The Public Relations Project, a consulting firm that specializes in social media and public relations.

Working for Diverse Iowa Businesses

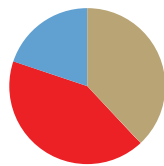
The Division licenses, regulates and supports over 10,000 businesses operating in Iowa including liquor, grocery, and convenience stores, alcohol manufacturers, wineries, breweries, bars, restaurants, distributors and delivery service providers.

Iowa Alcohol Production



84 Native Wineries
11 Native Breweries
3 Micro-Distilleries

License Distribution



Retail On-Premises
Retail Off-Premises
Wholesale, Other

Emerging Public Policy Issues

Defining of High-Alcohol Content Beer

The Division is working with the beer industry to craft language amending the definition of high-alcohol content beer to include no more than 1.5% of alcohol by volume derived from added flavors and other nonbeverage ingredients containing alcohol.

Spirit Sales by Charity Auctions

Members of nonprofit entities have expressed interest in allowing spirits to be auctioned at charity auctions in addition to beer and wine and to allow donations of alcoholic beverages by wholesalers for consumption at fundraising events.

Retail Delivery of Alcoholic Beverages

The Iowa Alcoholic Beverages Division is working with retail industry members to craft language allowing home delivery of liquor, wine and beer.

License and Permit Requirements

Local authorities (cities and counties) have expressed interest in clarifying the term “good moral character” and defining “public nuisance” to assist in the licensing approval process.

Penalties for Sale-to-Minor Violations

Members of retail liquor, wine and beer associations have expressed interest in an amendment to mirror penalties for sale-to-minor alcohol violations to those penalties provided for sale-to-minor tobacco violations.

Sale of Liquor by Convenience Stores

Communication with members of the convenience store industry indicates a bill will be introduced in the upcoming session to strike language prohibiting issuance of a class “E” liquor license to a premises where payment for gasoline is made.

Division renews efforts in education and outreach to licensees and general public

The Division has a new focus on education and is working to develop education programs, materials, and partnerships that promote alcohol awareness.

The educational efforts are split into three segments. First, the Division focuses on providing alcohol awareness and abuse prevention information to the general public. Topics in this area include underage drinking, binge drinking, caffeinated alcoholic beverages, fetal alcohol syndrome, and alcoholism and substance dependency.

The next segment of education is directed toward licensees and the

alcohol industry. The Division strives to achieve compliance with laws and regulations in a proactive manner by increasing awareness through education and training first and employing enforcement measures only when necessary.

The third segment involves strengthening existing partnerships and forging new ones with groups that are involved in alcohol awareness education. Two new important partnerships have already begun. The first is EUDL - Enforcement of Underage Drinking Laws - with a collaborative effort between the Division and the Iowa Department of Human Rights, Iowa State Patrol, Department of Public Safety, Governor’s Traffic Safety Bureau and the Governor’s Office of Drug Enforcement. EUDL partners work together to provide online resources for licensees. The second partnership is with the March of Dimes to provide materials to help increase awareness of the dangers of consuming alcohol while pregnant.

A number of free, printable materials are already available online at IowaABD.com. The Division is also developing a list of prevention-oriented books, websites and other resources.

PRIMARY INITIATIVES

Fiscal Responsibility

The Division implemented systems to strengthen operational efficiency and fiscal discipline.

Transparency & Accountability

Employees are committed to providing transparency and clear accountability in all aspects of the Division.

Education & Outreach

The Division renewed its efforts to work with partners in education and outreach, forming many new and valuable collaborations.

Efficiency

The ROBOCOM warehouse management system will enhance operational efficiency of inventory, logistics, labor management and order entry.

Employee Empowerment

A group of employees representing each subdivision is reviewing and updating all of the Division’s policies including records retention, whistle blowing and employee development.

HISTORICAL HIGHLIGHTS TIMELINE

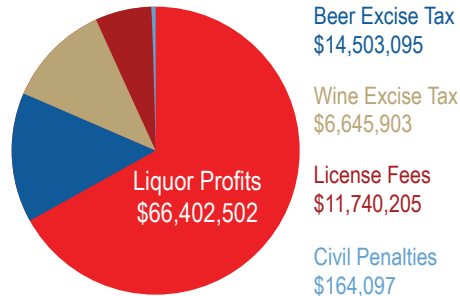
Prior to 1919	1920	1933	1934	1963	1972	1973	1981	1985	1986	1987	1989	1991
33 states already had some form of prohibition	The 18th Amendment passes creating national federally mandated prohibition but there are major enforcement problems	21st Amendment passes, repealing national prohibition	Iowa becomes a Control State and assumes direct control over wholesale and retail distribution of alcoholic beverages, except beer	On-premises liquor-by-the-drink sales allowed and simultaneously, dramshop insurance becomes a requirement	Iowa Beer and Liquor Control Act consolidates liquor code. Department begins regulating beer industry in addition to spirits and wine	Alcohol sales are allowed on Sunday	Iowa Beer & Liquor Control Department and the state liquor warehouse are moved to ABD's current location	Iowa's wine monopoly is privatized	Beer & Liquor Control Department replaced by Alcoholic Beverages Division, part of the Department of Commerce	State owned liquor outlets replaced with privately owned stores	Brew Pub permits created	Operations of the warehouse and transportation subdivision bid out and awarded to a private entity.

Funds generated by the Division finance essential public services

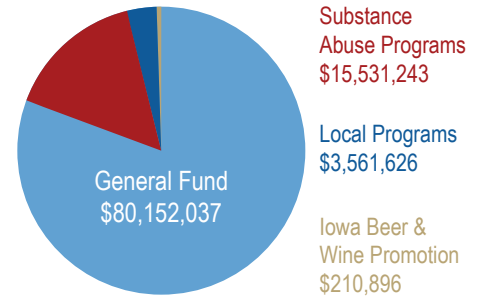
Since 1988, the Division has added \$1.5 billion to State coffers for use in many public services and programs. Liquor profits, beer and wine tax, license fees, and civil penalties generated nearly \$100 million for the State of Iowa last fiscal year. Of that amount, more than \$80 million was transferred directly to the general fund. An additional \$3.5 million went to local city and county programs.

FISCAL YEAR 2010 \$99,455,802

FUNDS GENERATED



FUNDS TRANSFERRED



BENEFITS OF THE CONTROL STATE SYSTEM

Iowa and 18 other jurisdictions in the United States utilize the control state system to provide flexibility across a wide range of public moderation, state revenue, and consumer service goals. Iowa has tailored its system to respond directly to the policy objectives of its citizens.

Balances rights & responsibilities

The Division wholesales over 1,200 different products to more than 750 privately owned retail outlets in the state. By participating in the marketplace, Iowa provides responsible options to individuals who choose to drink, and is also able to serve citizens with a range of policies for promoting moderation in the consumption of alcoholic beverages.

Levels the playing field

The Division offers the same prices and delivery options to all licensees, regardless of location and quantity purchased, enabling small locally owned stores to compete with large volume chain stores.

Controls distribution

Iowa's controlled distribution system provides an effective method of regulation to protect the public from the substantial social risks and economic costs of alcohol abuse.

Reduces social costs

When the control system is in place, beverage alcohol consumption is significantly lower. Additionally, funds generated from the sale of alcohol directly finance many substance abuse programs.

Increases state & local revenues

Profits derived from the sale of spirits flow directly to state and local government for essential public services and programs.

HISTORICAL HIGHLIGHTS TIMELINE



**Questions for Department Heads –
Administration and Regulation Subcommittee**

1. What is the core mission of your department?
To serve lowans through the responsible regulation and profitable distribution of alcohol while providing opportunities for industry development and promoting health through education.
2. What is the effect of Senate File 2088 (State Government Reorganization Act) on your Department?
Due to SERIP, the agency had to rehire the entire licensing and regulation section. Of the five people that left under this program, all five were replaced. The agency also had two more employees leave under SERIP that were not replaced.
3. How many employees do you have?
71
4. How many merit employees?
69
5. How many employees are covered under collective bargaining agreements?
62
6. How many department FTEs are federal funded?
0
7. Have there been any recent reclassifications of individuals in your department? How many and what were the changes?
Yes, 1 changed from PSE2 to PSE3 to reflect proper classification due to duties and responsibilities of the position.
8. Does your department receive federal funds? If so, what is the State match?
No.
9. Can divisions within the department be merged to create greater efficiencies?
No due to segregation of duty requirements, however the department was already reorganized within the last year to increase efficiency.
10. How much department revenue comes from other state agencies?
\$530,000 from IDPH through a 28E agreement for tobacco compliance checks.
11. How much department revenue is fee-based?
All fees are deposited into the Liquor Trust Fund and subsequently transferred to the General Fund. Total funds generated by the division through fees & licenses was \$13,489,281. Of that, \$595,025 came from split case fees \$1,154,051 from bailment fees and \$11,740,205 from license fees (\$3,561,626 was returned to local governments as their share of license fees).

12. For FY 2011, describe the department's current budget situation. Do you expect any savings?
The ABD is constantly looking for efficiencies and cost savings. Although the actual budget reduction far exceeded the estimate, we were prepared for the majority of the cut. The bulk of the savings have come from the reorganization of ABD that included a reduction in force at the end of FY10. This reorganization, in combination with unfilled SERIP positions and continued search for efficiencies has allowed the division to maintain all current FTE's and all current services.
13. For budget line items that have only used 10-20% of their allocations so far, do you expect any savings?
No, any additional savings from those budget lines will offset losses from other budget lines that were incurred to account for the \$328,581 reduction this year.
14. How does House File 45 (Taxpayers First Bill) impact your department?
Under HF45 we will not be able to transition available funds to necessary areas to meet our required functions. A waiver will be submitted for the division's IT staff due to the need to have staff onsite for system management and maintenance.
15. Were any American Recovery and Reinvestment Act (ARRA) funds used in FY 2011
No.
16. Did the Department receive any Appropriations Transfers in FY 2011?
No.

Audit Response Timeline

<u>Date</u>	<u>Action</u>
5/6/09	Email sent to the Iowa Alcoholic Beverages Division (ABD) from the state auditor's office listing pending items to resolve.
5/27/09	Email sent to ABD from the state auditor's office listing pending items to resolve.
6/11/09	Auditor's staff speaks with an ABD staff member about above emails. All items on pending list were not addressed.
11/9/09	Auditor's staff meets with ABD staff. ABD staff was asked to contact vendors for detailed information to show the contracts were in compliance with master agreements. Documentation was to be provided within two weeks. ABD staff did not follow up with auditor.
11/12/09	Auditor's staff asks ABD about the transfer of FEMA camper. No response is received.
4/30/10	Former ABD administrator leaves position without officially responding to the FY 2008 or FY 2009 audits.
5/3/10	New ABD administrator Stephen Larson sends Auditor Vaudt a letter requesting a full audit on the financial condition and transactions of all offices, departments, warehouses and depots of the ABD. Administrator Larson also holds a meeting for all ABD staff to emphasize the need for transparency, accountability and public service. (Letter Attached.)
5/10/10	Administrator Larson meets with auditor's staff and receives the draft of the FY 2008 audit for the first time.
5/18/10	Administrator Larson meets with Iowa Alcoholic Beverages Commission Chairperson Rick Hunsaker to apprise him of the upcoming events and content of the audit report.
5/26/10	Formal responses to the FY 2008 and FY 2009 audits are submitted to the Auditor of State from ABD.
6/4/10	Copies of the audit drafts and responses are mailed to the Commission.
6/10/10	Administrator Larson is informed that the audits, responses and conclusions will be made public on or before June 30, 2010.
6/11/10	Administrator Larson meets with auditor's staff on his own to request a review of ABD procedures including inventory loss, time reporting, overtime, appropriate contact staff, and any other additional areas of concern.
6/30/10	Receive audit report for FY08 from the Auditor of State.
7/1/10	Phone call from the press regarding a news story on the audit.
7/2/10	Des Moines Register features article on ABD spending.
7/10 – 10/10	Various articles have been written with quotes from the Attorney General, State Auditor and Governor about items within the audit and the history behind the findings.
8/10	Iowa Attorney General begins formal investigations of matters related to past practices at ABD.
12/30/10	Receive audit report for the special audit requested on May 3, 2010, from the Auditor of State for the period ending May 31 st , 2010.

Audit Findings

Iowa Alcoholic Beverages Division

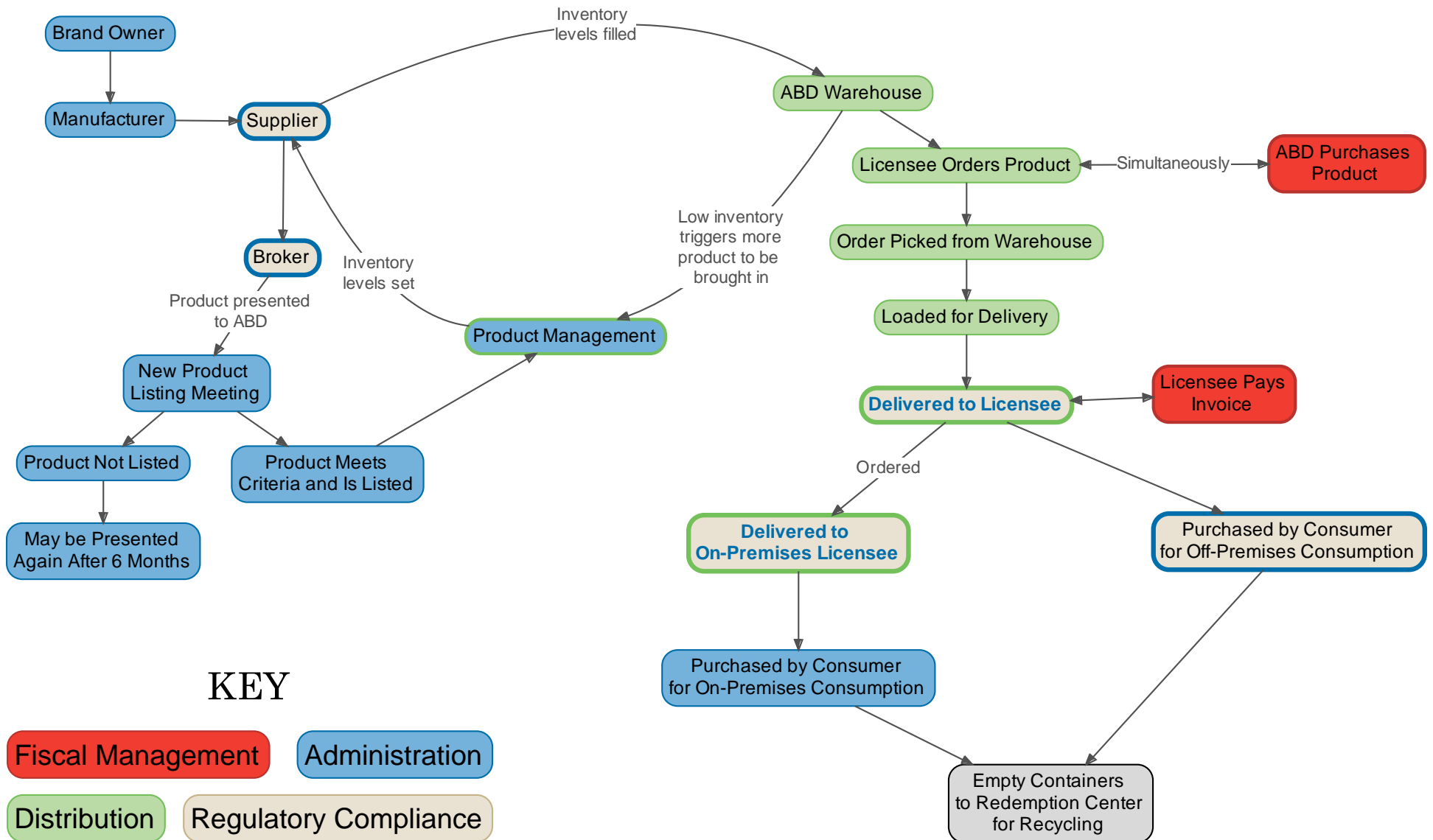
Audit	Issue	Recommendation	Response	Follow Up
May-10	Inventory Breakage	The warehouse worker who identifies the breakage should sign off on the "Warehouse Breakage" report in addition to the lead worker preparing the report. This would require two individuals to verify the breakage. Also, the Warehouse Breakage Reports should be reviewed for accuracy on a random basis by a member of Management. The Warehouse Breakage reports should be prenumbered. In addition, an electronic report of breakage which can be reviewed and analyzed, as necessary, should be implemented.	The Division requested this function to be specifically audited with recommendations for greater accuracy. The Division acknowledges the discrepancies, however at this time an electronic reporting tool is not available. The Division documents warehouse breakage in a hard-copy report with written management acknowledgement. The Division is entering into a contract to provide a new warehouse and inventory management system to address this reporting issue accurately and extensively document warehouse breakage.	The Robocom system will have built in reporting tools for breakage related items that will require management approval prior to system submission. Expected go-live date is May 1, 2011
	Driver Time Reporting	Truck driver timesheets should be approved by a supervisor. Also, the log books should be retained for a minimum of three years as required by the Iowa State Records Commission.	The practice of supervisor approval for driver logs and timesheets was instituted prior to the receipt of the initial audit findings. The Division is currently researching more efficient electronic means to document the driver logs and time worked. The Division's record retention policies have all been revisited since the beginning of the newly appointed administrator's term. Within this review, payroll related items have been addressed. This audit finding reflects items outside of the current administrator's control, however proper internal controls are in place to ensure accurate document retention. An all-incompassing records retention policy is being written and staff has been informed of the content.	Process was initiated prior to Audit findings. Not changes necessary, corrective action satisfactorily addresses issues.
	GPS	The Division should utilize the software effectively or discontinue paying for the software as soon as possible.	The current administrator discontinued the phone based GPS system for the transport drivers in May 2010. The system was ineffective, problematic, and could not be formatted to meet the Division's needs. Additionally, this system was put into place by the prior administration for individual driver tracking purposes in lieu of vehicle tracking. The Division is currently reviewing options for GPS systems to complement the new warehouse and inventory management system which will allow the Division to enhance customer response in a more efficient manner.	Corrective action taken prior to release of Audit findings. Truck based GPS units are being identified to enhance efficiency through the Robocom logistics software package.
	Overtime	The Division should review and evaluate the use of overtime and investigate alternative options.	The Division acknowledges the excessive use of overtime in prior fiscal years, however the use of overtime is required due to the nature of the Division's operations. The current administration has identified understaffing of the warehouse and transportation subdivision as the main issue contributing to overtime. The Division has modified delivery routes to minimize driver overtime, and the warehouse is now closed on most Fridays. Due to operational requirements, some Fridays require staffing to ensure holiday sales are processed and delivered.	The division is now fully staffed and overtime has been reduced by \$15,000 through the first 6 months of FY11. However full staffing with trained employees was not realized until October 2010.

Audit	Issue	Recommendation	Response	Follow Up
	Furlough Overtime	The Division should consult with management and legal counsel to determine the appropriate action to be taken for the underpayment of employees incurring overtime hours during the four pay periods ended December 10, 2009, December 24, 2009, January 7, 2010 and January 21, 2010 in which furlough hours were taken.	The Division concurs with the audit finding. Due to the programming issue associated with DAS-HRE, the Division was unaware of the additional overtime owed. The Division has identified the employees subject to overtime pay. The Division is currently preparing a State Appeal Board claim for the affected employees on their behalf to address the issue of due compensation.	Appeal Board claim was submitted with Division's support for payment. Currently, all items are with DAS pending their review.
Jun-09	Cancellation of Invoices	To strengthen controls, the Division should develop and implement procedures to properly cancel invoices and supporting documentation at the time of payment to help prevent reuse.	The Division has implemented an invoice cancellation process to help ensure proper payments are made	All invoices are stamped on the date they are processed for payment. Additionally, the invoices are attached to the payment documents submitted to state accounting
	Leave Requests on Computer Software	The Division should strengthen controls over the computer software to prevent modification by employees after supervisor approval.	Internal controls have been enacted to strengthen the accuracy of employee time reporting. Authority levels have been changed to reduce edit access to the minimum amount of personnel.	Only three managers, a personnel assistant, and the Administrator can augment the leave calendar. The ABD is researching an alternative, and cost effective time reporting system.
	Financial Reporting	The Division should ensure receipts are recorded in the proper fiscal year.	The Division has implemented internal audit controls to address transactions for fiscal year accuracy during the 60 day hold open period.	During the hold open period, each document is Fiscal Year reviewed and initialed to ensure accuracy.
Jun-08	Purchasing	ABD should follow the procurement policies addressed in IAC Sections 11-105 and 11-106.	Internal controls have been implemented by the new Division administrator, Stephen Larson, to ensure strict adherence to all procurement policies including, but not limited to competitively bid contracts, emergency procurements, Iowa Prison Industries and revising contracts, quotes and payments. Furthermore, the Division will partner with the Department of Administrative Services regarding training opportunities for all employees involved with procurement. Division staff will follow the policies outlined in IAC 11-105 and 11-106. Through the end of FY2008, the Division was a charter agency and had the flexibility to operate without certain controls on expenditures and procurement practices. Concerned about the lack of such controls, Governor Culver did not recommend extension and specifically sought to terminate the Charter Agency Program.	All purchases are documented through the procurement process. The procurement process is followed step-by-step as outlined in Iowa administrative code. 3 staff members have attended procurement training from DAS. All purchases to date have a material effect to the agency's mission and readiness to perform.

Audit	Issue	Recommendation	Response	Follow Up
	Questionable Disbursements	<p>ABD should determine and document the public purpose served by these expenditures before authorizing any further payments. If this practice is continued, ABD should establish written policies and procedures, including the requirements for proper documentation.</p> <p>Also, art objects are required to be displayed in public reception or waiting areas of the department and the department is responsible for maintaining justification. In addition, the Iowa Arts Council should be contacted for possible assistance in locating pictures and art objects.</p>	<p>At Governor Culver's request, the Department of Management reviewed Division expenditures made during late 2008. The evaluation led to the Department of Management imposing greater controls on spending and heightened scrutiny over personnel decisions made by former administrator Lynn Walding. Under the new director, the Division has implemented internal controls to document and justify non-routine purchases. All documentation must be affixed to invoices submitted to accounting for payment. Purchases will be conducted in accordance with the Iowa Administrative Code and will meet an appropriate and necessary use of public funds. Whenever possible, procurements will be made through master purchasing agreements in order to save money.</p> <p>In regards to the art displayed at the Division's offices, pieces have been placed in areas accessible for public viewing. The Division will be contacting the Iowa Arts Council for further assistance with the collection.</p>	<p>All purchases are documented through the procurement process. The procurement process is followed step-by-step as outlined in Iowa administrative code. 3 staff members have attended procurement training from DAS. All purchases to date have a material effect to the agency's mission and readiness to perform.</p>
	Promotions	<p>ABD should maintain documentation of the reasons for rapid promotions and salary increases.</p>	<p>The promotions and salary increases identified were given by former administrator Walding and only he can answer for them.</p> <p>Going forward, all non-contract promotions and salary increases will require the administrator's approval and signature. Additionally, any salary increase greater than 5 percent will require written justification to be placed in the employee's personnel file.</p>	<p>All promotions and non-contract salary increases have been done through reclassification efforts to properly classify and compensate affected staff members. Any increase greater than 5% has written justification, either from reclassification or written justification in addendum.</p>
	Annual Report	<p>The Alcoholic Beverages Division is required by Chapter 123.55 of the Code of Iowa to prepare an annual report to the Governor. The annual report for fiscal year 2008 was not filed timely.</p>	<p>The Division posted the fiscal year 2008 annual report on the agency's website, iowaabd.com, on May 18, 2009. Moreover, the Division has established a procedure to timely prepare and post future annual reports in the future.</p>	<p>The division posted the FY10 annual report on our website by 10/1/10. Additionally, all future annual reports will be posted to coincide with the official fiscal year closure timeframe of October 1st, ninety (90) days after the end of the fiscal year.</p>

Flow of Spirits

From Product Consumption to Consumer



Licensing Application Process

Iowa Alcoholic Beverages Division

